standard adopted by numerous other circuits. In fact, however, only one other circuit has addressed the question at issue here. In *Martin's Herend*, 112 F.3d at 1304, the Fifth Circuit held that "[a]s long as plaintiffs have ever approved a piece for importation and sale in this country [a competitor] is free to sell any individual piece of the same quality from the same product line."

The court below read *Martin's Herend* to hold that the sale of even one authorized item lacking a material difference defeats a gray market infringement claim. Pet. App. 18a. And the court below expressly declined to adopt that strict approach. *Ibid.* If the court of appeals' interpretation of the *Martin's Herend* decision is correct, there may be a conflict between the court below and the Fifth Circuit on the question whether a single authorized sale of a nonconforming good would defeat a gray market infringement claim. This case, however, is not an appropriate vehicle for resolving that potential conflict, because petitioner could not benefit from the adoption of the Fifth Circuit's single-sale standard. Indeed, that standard is substantially *less favorable* to petitioner than the "all or substantially all" standard adopted by the court below. Any conflict between the decision below and *Martin's Herend* should be resolved in a case in which a trademark owner has authorized the sale of a single nonconforming good, but has not authorized the sale of a substantial quantity of nonconforming goods—not in a case like this one in which the plaintiff has authorized the sale of a substantial quantity of nonconforming goods and therefore cannot prevail under either standard.

Furthermore, because only two circuits have addressed the question of the appropriate standard for determining when nonconforming sales prevent a plaintiff from satisfying the materiality requirement, resolution of that question

would benefit from further ventilation in the circuits. Review of that issue at this stage would be premature.

3. Petitioner attempts to identify several other alleged conflicts. But none of the other decisions cited by petitioner conflicts with the decision below.

First, petitioner cites cases (Pet. 10-11 & n.5) that hold that a showing of a material difference is necessary to prove a gray market infringement case. See *Nestle*, 982 F.2d at 640; *Original Appalachian Artworks*, 816 F.2d at 72-73; *Davidoff*, 263 F.3d at 1302; *American Circuit Breaker*, 406 F.3d at 585. Those decisions do not conflict with the decision below. In *Gamut*, the Federal Circuit adopted the same material difference requirement, 200 F.3d at 779, and, in the decision below, the Federal Circuit reaffirmed *Gamut*'s material difference requirement. Pet. App. 11a-12a. The decision below is therefore fully consistent with the decisions cited by petitioner.

Petitioner appears to suggest that the other courts that have adopted a material difference requirement have rejected the Federal Circuit's holding that the plaintiff must show that all or substantially all of the authorized sales contain the alleged material difference. In fact, however, those cases simply did not address that issue.

Nor does the decision below conflict with the Third Circuit's decision in *Iberia Foods Corp.* v. *Romeo*, 150 F.3d 298, 304 (1998). That case simply held that the same materiality requirement that applies in gray market cases also applies when a trademark owner seeks to enjoin the sale of domestic products. *Id.* at 302-303. The court in *Iberia Foods* did not address whether a trademark owner would have to show that all or substantially all of its authorized sales contained the alleged material difference in order to satisfy the materiality requirement.

Petitioner next cites cases (Pet. 11-12) holding that the plaintiff in an infringement action does not have to prove that the challenged goods are of inferior quality. See *Nestle*, 982 F.2d at 640; *El Greco Leather Prods. Co.* v. *Shoe World, Inc.*, 806 F.2d 392, 395 (2d Cir. 1986), cert. denied, 484 U.S. 817 (1987); *Shell Oil Co.* v. *Commercial Petroleum, Inc.*, 928 F.2d 104, 107 (4th Cir. 1991); *Martin's Herend*, 112 F.3d at 1302. The decision below, however, did not impose an inferior quality requirement. Rather, it ruled against petitioner based entirely on petitioner's failure to show that all or substantially all of its authorized sales were accompanied by the alleged material difference. Accordingly, there is no inconsistency between the decision below and the decisions holding that a plaintiff need not demonstrate that challenged goods are of inferior quality.

Indeed, petitioner does not even claim that there is such a conflict. Instead, petitioner appears to claim (Pet. 11-12) that the decisions rejecting an inferior quality requirement are in conflict with the Third Circuit's decision in *Iberia Foods*. But *Iberia Foods* did not impose an inferior quality requirement either. To the contrary, *Iberia Foods* held that such a showing is not required. 150 F.3d at 304 ("courts do not require trademark owners to show that the actual quality of the inspected goods is measurably higher than that of the uninspected goods"). In any event, any conflict between *Iberia Foods* and the cases holding that a plaintiff need not establish that the challenged goods are of inferior quality would not provide a basis for granting review in this case.

Petitioner next contends that the decision below conflicts with cases holding that a plaintiff in an infringement case does not have to show that there has been a diminishment in the value of the mark. Pet. 12 & n.8 (citing *Nestle*, 982 F.2d at 640). But the court below did not hold that a plaintiff must show that there has been a diminishment in the value

of the mark. To the contrary, the court rejected petitioner's contention that the Commission had imposed such a requirement, explaining that the Commission had ruled against petitioner because petitioner had failed to satisfy the material difference standard, not because petitioner had failed to prove a diminishment in the value of its mark. Pet. App. 19a.

Petitioner also contends (Pet. 12) that two other decisions—*Shell Oil* and *Iberia Foods*—require the trademark owner to prove actual harm to the mark and therefore conflict with *Nestle*. But *Shell Oil* did not require proof of actual harm as a predicate for liability. Instead, it held only that district courts have discretion to refuse to award damages in the absence of actual loss. 928 F.2d at 108.[1] And *Iberia Foods* did not require the plaintiff to prove actual harm to the value of the mark either. See 150 F.3d at 304 (holding only that there must be proof that "quality control procedures * * * are likely to result in differences between the products such that consumer confusion regarding the sponsorship of the products *could* injure the trademark owner's goodwill") (emphasis added). In any event, any conflict between *Nestle*, *Shell Oil*, and *Iberia Foods* would not provide a basis for granting review in this case.

Petitioner next suggests (Pet. 13) that the holding of the court below that a plaintiff in a gray market case must show that all or substantially all of the authorized goods are accompanied by the alleged material difference conflicts with the Second Circuit's decision in *Warner-Lambert Co.* v.

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[1] Petitioner mischaracterizes *Shell Oil* in claiming (Pet. 12 n.9) that it held that "a finding of actual loss is a prerequisite to an award of damages." The passage quoted by petitioner does not state the holding of the court, but was instead taken from the court's description of a litigant's arguments. 928 F.2d at 108.

Northside Development Co., 86 F.3d 3 (1996). There is, however, no conflict.

As petitioner itself concedes (Pet. 10 n.4), *Warner-Lambert* was a product degradation case, not a gray market case. The Second Circuit therefore did not address the question whether a plaintiff in a gray market case must prove that all or substantially all of the authorized sales were accompanied by the alleged material difference. Moreover, while the court in *Warner-Lambert* concluded that it would be inappropriate to require a plaintiff in a product degradation case to ensure that its quality control procedures prevent virtually all departures from established norms, it also held that a plaintiff who fails to take such steps must show that further sales of nonconforming goods "measurably diminish the value of an already partially devalued mark." 86 F.3d at 7. In this case, petitioner failed to make that showing. Pet. App. 7a. Accordingly, even if the standard adopted in *Warner-Lambert* were extended to gray market cases, petitioner could not benefit from that extension.

4. Finally, petitioner contends (Pet. 14-19) that the Federal Circuit's decision undermines the protection against gray market infringement and promotes consumer confusion. That contention is incorrect. Here, petitioner itself is responsible for the situation in which it finds itself. In order to maximize sales, petitioner chose to sell a substantial quantity of its trademarked bearings without the accompanying services that it claimed distinguished its products from gray goods. If petitioner wished to preserve its protection against gray goods, it need only have refrained from making those sales. Having intentionally made those sales, petitioner is in no position to assert that its goods are materially different from the gray goods at issue or to complain about consumer confusion regarding its products. Petitioner's claims ring particularly hollow because the court of

appeals expressly adopted a more trademark-protective standard than the standard it attributed to the only other circuit that has addressed the question.

CONCLUSION

The petition for a writ of certiorari should be denied.

Respectfully submitted.

PAUL D. CLEMENT
Solicitor General

JAMES M. LYONS
General Counsel

NEAL J. REYNOLDS
Assistant General Counsel for Litigation

WAYNE W. HERRINGTON
Attorney
Office of the General Counsel
United States International Trade Commission

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IN THE

Supreme Court of the United States

SKF USA INC.,
Petitioner,

v.

INTERNATIONAL TRADE COMMISSION, BEARINGS LIMITED, AND MCGUIRE BEARING COMPANY,
Respondents.

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

BRIEF FOR RESPONDENTS BEARINGS LIMITED AND MCGUIRE BEARING COMPANY IN OPPOSITION TO PETITION FOR WRIT OF CERTIORARI

Patricia B. Cunningham
SUTHERLAND ASBILL & BRENNAN LLP
999 Peachtree St., N.E.
Atlanta, GA 30309
(404) 853-8000

Steuart H. Thomsen
Counsel of Record
SUTHERLAND ASBILL & BRENNAN LLP
1275 Pennsylvania Ave., N.W.
Washington, D.C. 20004-2415
(202) 383-0100

Counsel for Respondent Bearings Limited

WILSON-EPES PRINTING CO., INC. – (202) 789-0096 – WASHINGTON, D. C. 20001

Lyle B. Vander Schaaf
BRYAN CAVE LLP
700 Thirteenth Street, N.W.
Suite 700
Washington, D.C. 20545
(202) 508-6191

Counsel for Respondent McGuire Bearing Company

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QUESTION PRESENTED

Where petitioner sold substantial quantities of products that were not materially different from the gray market imports it sought to block, did the Court of Appeals correctly conclude that petitioner lacked a basis for a gray market trademark infringement claim?

CORPORATE DISCLOSURE STATEMENT

Bearings Limited is a privately owned corporation. There are no parent corporations or publicly held companies that own 10 percent or more of the stock of Bearings Limited.

McGuire Bearing Company is a privately owned corporation. There are no parent corporations or publicly held companies that own 10 percent or more of the stock of McGuire Bearing Company.

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STATEMENT

A. Introduction

SKF USA erroneously claims that the decision of the Federal Circuit in this case creates a conflict over the legal standard for trademark infringement by gray market goods. In finding no infringement in this case, the Federal Circuit and the Commission applied the same standard that has been applied consistently throughout the circuits.

Despite the implication in the Petition, gray market goods are not *per se* illegal and do not pose an inevitable danger to the consuming public. "Gray market goods" are "genuine goods that are. . . of foreign manufacture, bearing a legally affixed foreign trademark that is the same mark as is registered in the United States; gray goods are legally acquired abroad and then imported without the consent of the United States trademark owner." Pet. App. 10a (quoting *Gamut v. International Trade Commission*, 200 F.3d 775, 778 (Fed. Cir. 1999)). The sale of gray market goods is permitted under both trademark and tariff law where there are no material differences in the authorized product and the gray market imports. The mere fact that a party imports and sells gray market goods does not mean that the party is endeavoring to mislead consumers or to free-ride on the domestic trademark owner's reputation and goodwill. Moreover, when no material differences between the products exist, the consumer will necessarily benefit from the lower prices brought about by intra-brand competition.

SKF USA misstates the Federal Circuit's holding in arguing that the Federal Circuit applied something other than the material differences test. Pet. 3. The Federal Circuit applied the "material differences" standard – the same standard applied by all other circuit courts. Because SKF

USA had sold substantial quantities of goods found *not* to be materially different from goods sold by Respondents, however, the court needed to address whether SKF USA could claim material differences under those circumstances. The court held that SKF USA could do so only if it proved that "all or substantially all" of SKF USA's products were sold with the features on which SKF USA based its material difference claim. In view of the fact that SKF USA had sold hundreds of millions of dollars of product found not to be materially different (not the insignificant quantities SKF USA's petition implies), the court affirmed the Commission's factual finding that SKF USA had not met its burden.

SKF USA also misrepresents the Commission's determination in the proceeding below. First, SKF USA incorrectly argues that the "all or substantially all" requirement was defined such that "more than one sale [of goods that were not materially different from the gray market goods] would prevent a finding of trademark infringement." Pet. 8. Neither the Commission nor the Federal Circuit reached such a conclusion. Second, SKF USA states that the Commission imposed a "further diminishment" requirement, *i.e.*, that SKF USA must establish that the sale of gray market bearings further diminished the value of its marks, if it was unable to satisfy the "all or substantially all" requirement. Contrary to SKF USA's contention, neither the Federal Circuit nor the Commission imposed such a requirement.

SKF USA engages in unsupported rhetoric in arguing that the Federal Circuit's decision somehow endangers trademark owners and renders "gray market trademark protection virtually useless." Pet. 8. The importation and sale of gray market goods in this country is not *per se* illegal, and is prohibited only when there is a likelihood of consumer confusion from such importation or sale. The "all or

substantially all" requirement applied below is necessary to ensure that the unique remedies provided by actions under Section 337 of the Tariff Act are imposed only when appropriate.

B. Background And Factual Inaccuracies In Petition

SKF bearings, which are manufactured by SKF USA and by commonly-controlled affiliates throughout the world (Pet. App. 27a), are manufactured to the same standards worldwide and packaged in the same boxes. JA8585:22-8586:1, JA8587:9-8588:14. SKF USA sells in the United States both SKF bearings manufactured by it and SKF bearings it imports that are manufactured by its foreign affiliates. Pet. App. 2a, 3a. Although SKF USA has sought to keep confidential much of its sales data, it alleged annual sales of SKF bearings in the United States of over $525 million in its Verified Amended Complaint. *See* JA1280 ¶ 11; *see also* JA1288 ¶ 43 ($1.6 billion in sales in 3 years). This translates into domestic sales of over $2.6 billion during the five year period preceding the Complaint that was the focus of the Commission's investigation.[1]

The "gray market" bearings imported and sold by Respondents are physically identical to bearings imported and sold by SKF USA. They are genuine, new SKF bearings manufactured by the same SKF foreign affiliates from whom SKF USA purchased and imported bearings.

SKF USA alleged that the bearings sold by Respondents were materially different from the "authorized" bearings sold by SKF USA because SKF USA offered post-sale technical and engineering services with the bearings. Both the

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[1] The percentage of SKF bearings imported by SKF USA during the five years preceding the complaint is contained in the confidential portion of the record. *See* JA245; JA840 (FF 20).

Commission and the Federal Circuit disagreed with SKF USA because the evidence showed that during the five year period preceding the complaint, SKF USA sold hundreds of millions of dollars of SKF bearings that were not accompanied by the alleged post-sale technical services.[2]

The Commission and the Federal Circuit rejected SKF USA's arguments that its sales without services should be disregarded for material differences purposes. For example, the Federal Circuit affirmed the Commission's finding that there was no evidence supporting SKF USA's arguments that consumers in some markets did not expect the alleged services and agreed with the Commission that it was inappropriate to exclude sales channels encompassed by SKF USA's requested relief. Pet. App. 21a-22a, 86a-88a.[3] The

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[2] For obvious reasons, SKF USA has sought to emphasize the *percentage* of its sales of non-conforming bearings (*i.e.*, bearings sold without services relied on by it), rather than the *volume* of such sales, and has designated the actual dollar amounts as confidential in the investigation record and not available for public disclosure. As noted above, however, its public allegations suggest total sales over $2.6 billion during the five-year investigation period. The Federal Circuit's finding that 12.6% of SKF USA's U.S. sales were of non-conforming bearings (Pet. App. 20a-21a), would thus represent over $300 million in sales. The actual total sales and non-conforming sales numbers may be found in the confidential portions of the record at JA275, JA288, JA290.

[3] The evidence does not support the statements or suggestions in SKF USA's Petition (Pet. 5-6) that its sale of non-conforming SKF bearings should be disregarded because they were to separate and distinct market channels that purportedly did not expect the claimed services upon which SKF USA relied. The Federal Circuit affirmed the Commission's finding of a lack of evidence as to consumer expectations. Pet. App. 21a, 80a, 86a-87a. Moreover, as the Commission noted, the evidence showed that the sales channels overlap and that bearings often pass through various channels and multiple resellers before they reach the end user. Pet. App. 81a-82a. Furthermore, the evidence did not support SKF USA's statements (Pet. 6) that sales to non-authorized distributors were pursuant to sales contracts which provided for post-sale technical services, that end users of those bearings would not encounter barriers to